COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN INVESTIGATION OF TOLL AND ACCESS CHARGE PRICING AND TOLL SETTLEMENT AGREEMENTS FOR TELEPHONE UTILITIES PURSUANT TO CHANGES TO BE EFFECTIVE JANUARY 1, 1984	)))))	CASE NO. 8838 PHASE IV

O R D E R

Introduction

On March 28, 1986, the Commission released an Order initiating this investigation, the purpose of which is to reconsider the matters of interLATA[1] and ULAS[2] access compensation.[3] Subsequent Orders dated September 15, 1986, and October 2, 1986, further clarified the issues.

AT&T Communications of the South Central States, Inc., ("AT&T"), the Attorney General of the Commonwealth of Kentucky, by and through his Utility and Rate Intervention Division ("Attorney General"), Cincinnati Bell Telephone Company ("Cincinnati Bell"), Continental Telephone Company of Kentucky ("Continental Telephone"), General Telephone Company of the South ("General

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1 Local Access and Transport Area.

2 Universal Local Access Service.

3 InterLATA and ULAS revenue requirements were originally defined in an Order in Phase II of this case dated May 31, 1985. Furthermore, the ULAS tariff in effect under authority of the Commission requires that revenue requirements be determined on an annual basis. See South Central Bell Telephone Company, PSC Ky. Tariff 2J, section J3.1.B.

Telephone"), the Independent Telephone Group,[4] MCI Telecommunications Corporation ("MCI"), South Central Bell Telephone Company ("South Central Bell"), and US Sprint Communications Company ("Sprint") participated in this investigation.

The Commission received prefiled testimony as follows:

1. On behalf of AT&T, Testimony of L. G. Sather, Staff Manager, State Pricing Implementation, filed on June 6, 1986, and Supplemental Testimony of L. G. Sather, filed on November 21, 1986.

2. On behalf of the Attorney General, Testimony of Ben Johnson, Consultant to the Attorney General, filed on May 23, 1986, and Supplemental Testimony of Ben Johnson, filed on November 24, 1986.

3. On behalf of Cincinnati Bell, Testimony of R. William Stropes, District Manager, Tariffs, filed on April 16, 1986, and Supplemental Testimony of R. William Stropes, filed on November 21, 1986. Also, on behalf of Cincinnati Bell, Testimony of James J. McCarthy, District Manager, Separations and Economic Analysis, filed on November 21, 1986. The Testimony and Supplemental

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[4] Ballard Rural Telephone Cooperative Corporation, Inc., Duo County Telephone Cooperative Corporation, Inc., Foothills Rural Telephone Cooperative Corporation, Inc., Harold Telephone Company, Inc., Highland Telephone Cooperative, Inc., Leslie County Telephone Company, Inc., Lewisport Telephone Company Inc., Logan Telephone Cooperative, Inc., Mountain Rural Telephone Cooperative Corporation, Inc., North Central Telephone Cooperative, Inc., Peoples Rural Telephone Cooperative Corporation, Inc., Salem Telephone Company, South Central Rural Telephone Cooperative Corporation, Inc., Thacker-Grigsby Telephone Company, Inc., and West Kentucky Rural Telephone Cooperative Corporation, Inc.

Testimony of Mr. Stropes were adopted by Mr. McCarthy in Supplemental Testimony filed on June 5, 1987, as a result of having assumed Mr. Stropes' responsibilities concerning access service tariffs and rates.

4. On behalf of General Telephone, Testimony of Norman L. Farmer, Business Relations Director, filed on May 9, 1986, and Supplemental Testimony of Norman L. Farmer, filed on November 21, 1986.

5. On behalf of the Independent Telephone Group, Testimony of William W. Magruder, General Manager, Duo County Telephone Cooperative Corporation, Inc., ("Duo County Telephone"), filed on May 9, 1986, and Supplemental Testimony of William W. Magruder, filed on November 21, 1986.

6. On behalf of MCI, Testimony of Roy L. Morris, Associate Regulatory Counsel, filed on June 10, 1986, and Supplemental Testimony of Roy L. Morris, filed on December 8, 1986.

7. On behalf of South Central Bell, Testimony of John E. Ebbert, Assistant Vice President, Rates and Economics, filed on May 9, 1986, and Supplemental Testimony of John E. Ebbert, filed on November 21, 1986.

8. On behalf of Sprint, Testimony of Michael L. Ball, Manager, Regulatory Affairs, filed on November 21, 1986.

In addition, Continental Telephone filed comments on May 9, 1986, and November 21, 1986.

A public hearing was held on June 9 and 10, 1987, to permit the presentation of testimony and the cross-examination of witnesses. The resulting Transcript of Evidence was filed on

June 22, 1987. The Commission received post hearing briefs as follows:

1. Brief of AT&T, filed on July 13, 1987.
2. Brief of the Attorney General, filed on July 10, 1987.
3. Brief of Cincinnati Bell, filed on July 13, 1987.
4. Brief of Continental Telephone, filed on July 13, 1987.
5. Brief of General Telephone, filed on July 13, 1987.
6. Brief of MCI, filed on July 13, 1987.
7. Brief of South Central Bell, filed on July 13, 1987.
8. Brief of Sprint, filed on July 17, 1987.

All information requested by the Commission and the parties has been filed.

Discussion

Scope of the Investigation

Both AT&T and the Attorney General contend that the scope of this investigation should be limited. AT&T states that "the only changes that should be addressed at this time are changes in the Carrier Common Line rate, including the WATS/800[5] application, and concomitant adjustment in the ULAS revenue level."[6] Similarly, the Attorney General urges that "the Commission reject any proposals to mirror any aspects of the interstate tariffs beyond changes in the level of the carrier common line charge."[7] The

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5 Wide Area Telecommunications Service.

6 Testimony of L. G. Sather, page 2.

7 Testimony of Ben Johnson, page 20.

basis for these positions is the limited time frame originally allotted to this investigation.

The Commission's Order of March 28, 1986, discussed various access service tariff changes then pending before the Federal Communications Commission ("FCC") and required local exchange carriers to file intrastate access service tariff revisions. The Order contemplated that the local exchange carriers would file intrastate tariff provisions consistent with interstate tariffs scheduled to be effective June 1, 1986. Some local exchange carriers filed mirrored tariffs. Others did not. Subsequently, the Commission's Order of September 15, 1986, clarified that "the intent of the Commission's Order of March 28, 1986, was that each local exchange carrier file an intrastate replica of its mid-year 1986 interstate access service tariff,"[8] and ordered local exchange carriers that had not filed intrastate replicas to do so.

Due to various delays, tariffs and other matters have been pending approximately 21 months since the original notice of this investigation. In the opinion of the Commission, the parties have had ample time to review and file comments on any tariff revisions to which they might have objections. In that time, only AT&T and the Attorney General have filed objections to specific tariff revisions, which will be discussed elsewhere in this Order. Therefore, the Commission will consider the full range of tariff revisions proposed by the local exchange carriers.

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8 Order in Phase IV of this case dated September 15, 1986, page 3.

MCI raised another issue of general concern to the scope of investigation. Specifically, MCI contends that any changes to access charges should be accomplished through traditional rate case proceedings, in which costs are identified, allocated, and recovered.[9] As MCI states:

> This procedure allows the Commission to initially determine whether a particular cost should in fact be borne by the rate-payers. It then allows the Commission to fairly allocate that cost between the respective rate-payers. Finally, it enables the Commission to set a fair recovery system based upon the costs as allocated.[10]

As discussed elsewhere in this Order, although intrastate cost of service information was not filed, the rates under consideration in this investigation are based on FCC access charge rules and regulations, which are designed to identify, allocate, and recover relevant costs. Furthermore, there is evidence in the record to suggest that intrastate cost of service may not substantially vary from interstate cost of service.[11] Therefore, pending the development of intrastate cost of service information, access charges based on FCC rules and regulations are acceptable.

Continental Telephone argues that "MCI's assessment that the hearings held on June 9 and 10, 1987, constituted a 'rate case' is incorrect."[12] Also, Continental Telephone notes that the issues

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9 Transcript of Evidence, Vol I, pages 10-19, generally.

10 Brief of MCI, page 3, footnote omitted.

11 Transcript of Evidence, Vol. I, pages 93-95.

12 Brief of Continental Telephone, page 1, footnote omitted.

in this investigation are limited and that "the Commission must limit any Order based on the June 9 and 10, 1987, hearings to the issues of which the parties were given notice."[13]

The Commission agrees with Continental Telephone's position. This investigation does not constitute a rate case and the issues were limited. Rate of return and the numerous other matters that would be considered in a rate case were outside the scope of this investigation. Moreover, despite its position, MCI concedes that the "business-as-usual" approach that the Commission used to originally establish interLATA revenue requirements was "an appropriate approach to take,"[14] given the circumstances of the time. The Commission agrees and adds that the business-as-usual approach continues to be an appropriate means to define interLATA revenue requirements.

As discussed elsewhere in this Order, interLATA revenue requirements will not change as a result of this investigation. Instead, rate structure will change. This essential distinction renders moot any argument that this investigation constitutes a rate case.

Revenue Requirements

The parties generally agree that the Commission should compute interLATA access compensation based on the most recent available information. Therefore, the Commission will use demand

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13 Ibid., page 2, footnote omitted.

14 Brief of MCI, page 4.

priceout information based on the 12 months ended June 30, 1986, to compute interLATA access compensation under proposed access service tariffs.

In an Order in Phase I of this case dated November 20, 1984, the Commission decided that interLATA revenue requirements should be based on the 1984 revenue experience of the local exchange carriers. This decision was based on a lack of interLATA cost of service information and the need to assure local exchange carrier revenue stability during the AT&T divestiture transition. Accordingly, in an Order in Phase II of this case dated May 31, 1985, the Commission set total interLATA revenue requirement at $66,731,000. The ULAS portion was set at $5,776,000.

In the Order of September 15, 1986, in this investigation, the Commission invited testimony on whether interLATA revenue requirements should be "frozen" at 1984 levels, absent interLATA cost of service information, or allowed to "grow" to reflect increased interLATA revenues during some later time period, on the premise that increased revenues correlate with increased costs.[15] As expected, the interLATA carriers generally favored a freeze and the local exchange carriers generally opposed a freeze. For example, AT&T argued that it seems "wholly inappropriate to allow any increases in the access revenue requirements without justification."[16] On the other hand, the Independent Telephone Group argued that:

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15 Order in Phase IV of this case dated September 15, 1986, pages 7-8.

16 Supplemental Testimony of L. G. Sather, page 16.

> ...we must use current period revenue requirements in order to reflect ongoing investment in new local exchange carrier facilities and increased costs which will benefit the interexchange carriers as they strive to deliver quality service to their customers through local network access. Capping our revenue requirements from interexchange carriers would simply create large windfalls for these large corporate giants and produce unrealistic profits for their investors at the expense of the average residential Kentucky local service ratepayer. It would also cause the local exchange carriers to halt many improvements in the public switched network. This capping of revenue requirements could also lead to local service rates subsidizing interexchange carriers network access.[17]

In several past Orders in this case, the Commission has expressed interest in interLATA cost of service information and has linked changes in interLATA revenue requirements with a showing of cost of service. As discussed further in this Order, to date no local exchange carrier has filed an analysis of interLATA cost of service. Therefore, the Commission will freeze interLATA revenue requirements at 1984 levels. However, within the context of interLATA revenue requirements, the Commission will consider matters of rate structure that affect interLATA access compensation as reflected in proposed access service tariffs, including the matter of ULAS compensation. These matters will not result in rates that materially exceed any local exchange carrier's authorized interLATA revenue requirement.

Access charges are generally classified as either traffic sensitive or non-traffic sensitive. Furthermore, ULAS is designed

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[17] Supplemental Testimony of William W. Magruder, pages 5-6.

to recover non-traffic sensitive revenue requirement that is not recovered through carrier common line charges. As such these classifications are straightforward. However, as a result of the Commission's decision to freeze interLATA revenue requirements at 1984 levels and matters of rate structure that affect interLATA access compensation, the issue arises as to whether ULAS should be calculated as a residual of all access charges or calculated as a residual of non-traffic sensitive revenue requirement alone. The former method would assure complete recovery of all access service revenue requirement, even in instances where traffic sensitive rates might be deficient. The latter method would assure recovery of non-traffic sensitive revenue requirement alone.

In general, the interLATA carriers favor calculating ULAS as a residual of non-traffic sensitive revenue requirement and the local exchange carriers favor calculating ULAS as a residual of all access charges. These positions are entirely consistent with economic self-interest. In the opinion of the Commission, ULAS should be calculated as a residual of non-traffic sensitive revenue requirement frozen at 1984 levels, pending a showing of interLATA cost of service information. This decision is consistent with the economic theory on which ULAS is based and the Attorney General's recommendation that:

> ...the Commission freeze the non-traffic sensitive portion of the interLATA revenue requirement...but allow the traffic sensitive portion to float with changing volumes. In this manner, the local exchange carriers will not receive the automatic increases in their non-traffic sensitive cost support as interLATA toll volumes grow, but they will receive increases in their revenues from the traffic sensitive charges. Adoption of this

> recommendation would result in a reduction in the average rate per minute paid by the interexchange carriers in support of non-traffic sensitive costs as the toll market expanded, thereby providing the carriers with stronger incentives to lower their toll rates and employ other strategies aimed at stimulating traffic volumes, to the benefit of Kentucky toll customers.[18]

Accordingly, Table 1 attached to this Order specifies ULAS compensation for each local exchange carrier subject to the Commission's jurisdiction, in the total annual amount of $7,670,310.

The Commission will note that as a result of the ULAS pricing method adopted in this Order and matters of rate structure that affect interLATA access compensation, some local exchange carriers will experience access service revenue sufficiencies and others will experience revenue deficiencies, as compared to 1984 interLATA revenue requirements. In the case of the Independent Telephone Group, some members will have an average access service revenue surplus of approximately $20,000[19] and others will have an average deficiency of approximately $5,000,[20] based on demand

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18 Supplemental Testimony of Ben Johnson, pages 8-9.

19 Duo County Telephone Cooperative Corporation, Inc., Harold Telephone Company, Inc., Leslie County Telephone Company, Inc., Logan Telephone Cooperative, Inc., Mountain Rural Telephone Cooperative Corporation, Inc., North Central Telephone Cooperative, Inc., Peoples Rural Telephone Cooperative Corporation, Inc., South Central Rural Telephone Cooperative Corporation, Inc., Thacker-Grigsby Telephone Company, Inc., and West Kentucky Rural Telephone Cooperative Corporation, Inc.

20 Ballard Rural Telephone Cooperative Corporation, Inc., Foothills Rural Telephone Cooperative Corporation, Inc., Highland Telephone Cooperative, Inc., and Salem Telephone Company.

priceout and other information filed with the Commission, some of which does not appear to be accurate and is not included in these averages.[21] In addition, Alltel Kentucky, Inc., will have an access service revenue surplus of approximately $42,000 and Brandenburg Telephone Company Inc., will have a surplus of approximately $17,000, based on their demand priceouts compared to 1984 interLATA revenue requirements.

The local exchange carriers identified above concur in Duo County Telephone's access service tariff. Therefore, the Commission will not require these companies to file individual access service tariffs that correct revenue sufficiencies and deficiencies, as the amounts are de minimis relative to the interLATA minutes of use involved and as such an action would impose unreasonable administrative burdens on the companies, as well as the Commission. Moreover, the Commission will not require

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[21] Peoples Rural Telephone Cooperative Corporation, Inc., South Central Rural Telephone Cooperative Corporation, Inc., and West Kentucky Rural Telephone Cooperative Corporation, Inc. The information at issue does not relate to demand priceout or 1984 carrier common line revenue information reported in this investigation. Therefore, it does not affect ULAS compensation as determined in this Order. Instead, the information at issue relates to 1984 interLATA access compensation in total, which was reported in Phase II of this case and used to define interLATA revenue requirements, except in the cases of Cincinnati Bell, General Telephone and South Central Bell, where other appropriate information was available. Moreover, the access service revenue sufficiencies and deficiencies discussed in this Order result from subtracting 1984 interLATA revenue requirements from demand priceout values. Thus, in the case of the Independent Telephone Group, the use of information reported in Phase II of this case that does not appear to be accurate from a current standpoint would result in an overstated average access service revenue sufficiency, because it appears that 1984 interLATA revenue requirements were understated in the instances cited.

Duo County Telephone to modify its access service tariff to accommodate concurring carriers, as such an action would impose an impossible task on Duo County Telephone.

In other cases, Cincinnati Bell will have an access service revenue deficiency of approximately $521,000, Continental Telephone will have a surplus of approximately $479,000, General Telephone will have a deficiency of approximately $770,000, and South Central Bell will have a deficiency of approximately $6,113,000, based on their demand priceouts compared to 1984 interLATA revenue requirements. In the case of Continental Telephone, the Commission will require Continental Telephone to reduce proposed switched access service rates from the annual pro forma amount of $930,000 to $451,000, or explain why it should not within 15 days from the date of this Order. In the other cases, the Commission will allow Cincinnati Bell, General Telephone, and South Central Bell to file applications to increase switched access service rates equal to their respective revenue deficiencies, so long as an analysis of interLATA cost of service is filed with the applications. Furthermore, in the case of South Central Bell, the Commission will reserve the option to consider its access service revenue deficiency in an impending investigation of its earnings.

In prefiled testimony, South Central Bell contends that it is committed to reducing the level of contribution included in its access charges, but that any reduction in the level of contribution in this investigation without a corresponding increase in charges applicable to end users would amount to

confiscation.[22] Similarly, Continental Telephone contends that its access charges should not be reduced without an analysis of the impact of such a reduction on its ability to earn its authorized rate of return.[23]

The Commission is not authorizing increases to charges applicable to end users in this Order. Instead, Cincinnati Bell, General Telephone, and South Central Bell are afforded other avenues to recover their respective access service revenue deficiencies. Thus, no confiscation is intended and the issue is moot. Likewise, Continental Telephone is afforded the opportunity to file an analysis of the impact on its earnings of reducing its access charges and, therefore, this issue is also moot.

Finally, neither Cincinnati Bell nor General Telephone has received ULAS compensation in the past. However, as a result of this investigation, both will receive ULAS compensation in the future.

Cincinnati Bell did not propose to mirror National Exchange Carrier Association carrier common line charges for originating and terminating minutes of use. Instead, it proposed a carrier common line charge applicable equally to originating and terminating minutes of use. Also, its proposed carrier common line charge was designed to recover an anticipated revenue shortfall from repriced access services, on the grounds that:

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22 Supplemental Testimony of John E. Ebbert, page 3.

23 Brief of Continental Telephone, page 2-3.

> ...[the shortfall] should not be applied as ULAS for the following reasons. Due to Cincinnati Bell's unique position in Kentucky in that no settlements are needed with other independent telephone companies, the Company would be required to set up its own ULAS coordination, requiring the creation of procedures to collect reports from the Interexchange Carriers for channels by location and reports of jurisdictional usage by conversation minutes. A unique billing system would have to be designed to calculate charges, distribute the bills, and collect the revenues. In addition, quarterly reports would have to be devised for the PSCK.[24]

In the opinion of the Commission, Cincinnati Bell should mirror National Exchange Carrier Association carrier common line charges and the non-traffic sensitive revenue requirement that is not recovered through these carrier common line charges should be recovered through ULAS. This is the same treatment accorded other local exchange carriers subject to the Commission's jurisdiction. Moreover, the Commission will require Cincinnati Bell to concur with South Central Bell's ULAS tariff and participate in the ULAS settlement process administered by South Central Bell. Through participation in the already existing ULAS settlement process, Cincinnati Bell can avoid the administrative burdens to which it objects and avoid the unnecessary duplication of South Central Bell's administrative efforts.

Likewise, the Commission will require General Telephone to participate in the ULAS settlement process administered by South Central Bell, despite its recommendation that non-traffic sensitive revenue requirement should be shifted from

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[24] Supplemental testimony of R. William Stropes, page 11.

"interexchange carriers to local subscribers."[25] This recommendation is beyond the scope of this investigation[26] and inconsistent with Commission policy as articulated in Phase I of this case.[27] As all parties should be aware, since its original decision, the Commission has consistently rejected subscriber line or end user charges as a means to recover non-traffic sensitive revenue requirement.

Cost of Service

In an Order in Phase I of this case dated November 20, 1984, the Commission instructed the local exchange carriers to develop cost of service information that could be used to price interLATA access charges and intraLATA local and toll services.[28] As indicated elsewhere in this Order, to date no local exchange carrier has filed such cost of service information.

AT&T,[29] MCI,[30] and Sprint[31] object to any increases in

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25 Testimony of Norman L. Farmer, page 6.

26 Order in Phase IV of this case dated March 28, 1986, page 2.

27 Order in Phase I of this case dated November 20, 1984, page 28 and generally.

28 Ibid., pages 83-85.

29 Testimony and Supplemental Testimony of L. G. Sather, generally.

30 Transcript of Evidence, Vol. I, pages 10-19, generally, and Brief of MCI, generally.

31 Brief of Sprint, generally.

interLATA revenue requirements and access service rates on the grounds that the local exchange carriers have not complied with the Commission's Order to file cost of service information. Furthermore, they contend that the Commission cannot determine appropriate interLATA revenue requirements and access service rates without such cost of service information. Therefore, Sprint recommends that "the Commission issue a show cause Order requiring the local exchange carriers to file cost of service studies identifying non-traffic sensitive costs and properly allocating them between local and toll services."[32]

The local exchange carriers generally contend that the access service rates proposed in this investigation are cost based. For example, South Central Bell argues that:

> While the current access rates in Kentucky for South Central Bell are not cost based, the mirrored rates filed by South Central Bell are cost based. The existing rates are based on national average rates developed by the National Exchange Carrier Association. The mirrored rates filed by South Central Bell are based on South Central Bell's Kentucky-specific costs, and the interstate access tariff contains Kentucky-specific rates. The cost study used to develop interstate rates is valid for intrastate purposes. Thus, by accepting the mirrored rates, the Commission will be adopting rates which are based on the cost of providing access in Kentucky.[33]

Although the local exchange carriers generally contend that the access service rates proposed in this investigation are cost based, no actual cost of service information was filed. Instead,

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[32] Ibid., page 6.

[33] Brief of South Central Bell, page 5, footnote omitted.

the access service rates proposed in this case reflect mid-year 1986 interstate access service rates developed under FCC access charge rules and regulations, which require access service rates based on fully distributed cost. Therefore, these rates are acceptable to the Commission. Furthermore, as discussed elsewhere in this Order, interLATA revenue requirements will not be increased and the access service rates approved in this Order result in reduced charges to interLATA carriers of approximately $7,704,000, based on the demand priceout information filed by the local exchange carriers and as compared to 1984 revenue requirements. In fact, however, the reduction should be somewhat greater than indicated, as access service revenues have grown since the test period used in this investigation, along with interLATA toll volumes.

The Commission will not issue a show cause Order at this time to require the local exchange carriers to file interLATA cost of service information. However, the Commission will indicate that it intends to initiate an investigation of toll cost of service in the near future. In the meantime, as discussed elsewhere in this Order, any local exchange carrier that seeks to increase access charges must file an analysis of interLATA cost of service with its application.

Access Service Tariffs

Cincinnati Bell, Continental Telephone, Duo County Telephone, General Telephone, and South Central Bell filed revised access service tariffs in this investigation that mirror their mid-year

1986 interstate tariffs, as ordered by the Commission on September 15, 1986. Also, General Telephone and South Central Bell have filed mirrored amendments to correct errors and omissions, and, in a related matter, General Telephone has proposed to reduce billing and collection services rates.[34]

AT&T and the Attorney General contend that the Commission should not automatically mirror interstate access service tariffs. For example, the Attorney General states that:

> ... a policy of slavishly mirroring the interstate tariffs is not in the best interest of Kentucky ratepayers. For one thing, it may encourage an excessive reduction in the Commission's scrutiny of the access tariffs. Even if the Commission retains its nominal jurisdiction, a practice of routinely mirroring the FCC's decisions will tend to lull all concerned into a belief that careful scrutiny of the intrastate tariffs is unnecessary, or of low priority.
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> Moreover, history suggests that the mirroring procedure may deny other interested parties adequate opportunity to review and comment on the tariff changes.[35]

The Commission has refused to automatically mirror interstate access service tariffs in past Orders in this case and will not adopt such a procedure in this investigation. Furthermore, as discussed herein, the access service tariffs under consideration in this investigation have been pending for an extended period of time. All parties have had ample time to review and comment on access service tariff issues and the Commission will afford ample opportunity in any future investigations.

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34 Case No. 10006, The Tariff Filing of General Telephone Company of the South to Reduce Bill Processing and Collection Services Rates.

35 Supplemental Testimony of Ben Johnson, pages 3-4.

Cincinnati Bell filed a carrier common line charge of $0.0598, but, as discussed elsewhere in this Order, will be required to file carrier common line charges of $0.0304, applicable to originating minutes of use and $0.0433, applicable to terminating minutes of use, effective November 1, 1987.

Continental Telephone, Duo County Telephone, General Telephone, and South Central Bell filed carrier common line charges of $0.0304, applicable to originating minutes of use, and $0.0433, applicable to terminating minutes of use.

The only objection to the proposed carrier common line charges is contained in the Attorney General's initial recommendation that carrier common line charges applied to originating minutes of use be reduced to zero[36] and later recommendation that carrier common line charges be eliminated.[37] None of the other parties favored either of these recommendations. In the opinion of the Commission, adoption of either of the Attorney General's recommendations would result in a sudden and dramatic increase in required ULAS compensation, at a time when other investigations concerning ULAS are underway. [38] Therefore, the Commission will not adopt either of the Attorney General's recommendations and will continue the past practice of gradually

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36 Testimony of Ben Johnson, page 22.

37 Supplemental Testimony of Ben Johnson, page 9.

38 Administrative Case No. 311, Investigation of InterLATA Carrier Billed Minutes of Use as a ULAS Allocator and Administrative Case No. 316, An Audit of Universal Local Access Service Channel Reports.

assigning non-traffic sensitive revenue requirement to ULAS as carrier common line charges are reduced. Accordingly, the Commission will approve the proposed carrier common line charges as filed, except as otherwise noted, effective 30 days from the date of this Order, which should allow ample time for necessary carrier access billing system changes.

In addition to carrier common line charges, the local exchange carriers proposed numerous other access service tariff revisions. These include, for example, (1) changes to general regulations on matters such as jurisdictional reporting requirements, billing arrangements, and various definitional items, (2) changes to restructure the application of carrier common line charges to WATS and resold MTS/MTS-type[39] and WATS/WATS-type services, and to eliminate certain service options available to resellers, (3) changes to access service ordering options, (4) changes to switched and special access service rates and regulations involving the elimination of certain charges, increases and decreases to various charges, and new rates and regulations involving WATS and other services, (5) changes to billing and collection services rates and regulations, including late payment penalty reductions, (6) changes to restructure directory assistance charges, and (7) other changes to miscellaneous access service offerings. The precise nature of these and other tariff revisions is summarized in attachments that were filed with the proposed access service tariffs.

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39 Message Telecommunications Service.

AT&T and the Attorney General raised various objections to the proposed access service tariffs. AT&T objects to increases to switched access service rates proposed by Continental Telephone and Duo County Telephone on the grounds that the increases are not cost supported.[40] Also, AT&T objects to proposed information surcharges associated with the production of white pages on the grounds that the production of white pages is a local and not an access service.[41] Further, AT&T objects to the equal access network reconfiguration charge proposed by South Central Bell on the grounds that it is not cost supported and that:

> ...the proposed application of this rate is inequitable. Equal access is an industry commitment and as such its cost should be collected from the industry. The charge of equal access should be assessed to South Central Bell and interexchange carriers who, for whatever reasons do not convert to equal access, instead of just interexchange carriers using feature group D as indicated in the tariff.[42]

In addition, AT&T objects to the allocation of line termination, customer premises equipment, and 800 service costs to intrastate access service,[43] and contends that rate disparity between special access and intraLATA private line should be eliminated:

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[40] Testimony of L. G. Sather, page 7.

[41] Ibid., page 8.

[42] Ibid., page 15.

[43] Supplemental Testimony of L. G. Sather, pages 17-19.

> ...we recommend either that intraLATA private line and special access services be provided from one tariff, as the local exchange companies do for their interstate services (this would appear to be consistent with their objective to mirror interstate tariffs) or that all ordering restrictions be removed from private line and special access tariffs so that these services are available at like rates and conditions to all of the local exchange companies' customers.[44]

The Attorney General objects to eliminating the application of carrier common line charges to the closed end of WATS.[45]

The switched access service rates proposed by Continental Telephone and Duo County Telephone are based on National Exchange Carrier Association average cost. Therefore, these rates are acceptable to the Commission and AT&T's objection is denied.

At hearing, AT&T did not demonstrate that proposed information surcharges or South Central Bell's proposed equal access network reconfiguration charge were inconsistent with relevant interstate access service tariffs. In fact, AT&T agreed that the charges were consistent.[46] The same is true concerning the Attorney General's position on the application of carrier common line charges to the closed end of WATS. Moreover, the access service rates proposed in this case reflect mid-year 1986 access service rates developed under FCC access charge rules and regulations. As a result, some rates may be somewhat overstated and some rates may be somewhat understated from the standpoint of

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44 Ibid., page 27.

45 Testimony of Ben Johnson, page 23-25.

46 Transcript of Evidence, Vol. II, pages 76-82, generally.

intrastate jurisdictional costs. However, neither AT&T nor any other party quantified any misallocation of costs that could be used to adjust any given rate.

The Commission will not take any action on the matter of special access and intraLATA private line rate parity in this investigation. However, the Commission will reserve the option to consider this matter in a pending investigation of South Central Bell's earnings or at some other time.

Also, on the matter of Attorney General's objection to eliminating the application of carrier common line charges to the closed end of WATS, the Commission concurs with Sprint's reasoning:

> US Sprint supports elimination of the intrastate CCLC from the closed end of WATS. This would reduce the incentive to bypass for the users most at risk to make an uneconomic investment in their own system. Users do not move directly from MTS-type services to a bypass option. They generally migrate from MTS-type service through WATS and other offerings using special access, and only then, to the bypass option. Unloading non-traffic sensitive costs from an offering like intrastate WATS thus would be a specifically tailored means of reducing the incentive to bypass of those most likely to bypass.[47]

Therefore, the Commission will approve the proposed access service tariffs as filed, including amendments, except as otherwise noted in this Order, and except as revisions are necessary to comply with the Commission's Order concerning jurisdictional WATS,[48] effective 30 days from the date of this

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[47] Brief of Sprint, page 9, footnote omitted.

[48] Order in Phase IV of this case dated June 1, 1987.

Order, which should allow ample time for necessary carrier access billing system changes.

As indicated elsewhere in this Order, in a related matter, on July 31, 1987, General Telephone filed a tariff to establish a reduced rate for bill processing and collection services. On August 27, 1987, the Commission suspended the tariff filing in order that the revenue impact could be considered in this investigation. No adjustments have been made in this Order to recognize any reduction in billing and collection service revenue.

Tariff Filing Procedures

In the Order of September 15, 1986, in this investigation, the Commission invited testimony on whether a streamlined review process should be adopted in order to expedite future access service tariff filings.[49] Cincinnati Bell and General Telephone made specific recommendations. Cincinnati Bell made the following recommendation:

> It does not appear that fully rewritten state tariffs are necessary at all. The state tariff could consist of a statement of concurrence in the interstate tariff on a section by section basis with only exceptions, necessitated by state law or commission rulings, filed in the tariff. Tariffs could become effective 30 days after the interstate tariffs are effective. This would allow 15 days for the Local Exchange Carriers to file exceptions and 15 days for the interested parties to file comments. If a particular issue merited further consideration, the PSCK could suspend that part of the filing for further investigation. It would seem apparent that the issues would be well known by the parties after an intensive investigation in the interstate arena. This process could apply to the annual interstate filings or to subsequent

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[49] Order in Phase IV of this case dated September 15, 1986, pages 8-9.

> specific issue filings made during the year. Under this scenario the carrier common line charge or the ULAS charge could be adjusted with each annual filing to meet the Local Exchange Carrier revenue stream.[50]

In part, Cincinnati Bell's recommendation has been rejected in a prior Order of the Commission in this case:

> ...in no case will the Commission permit rates, rules, and regulations contained in Cincinnati Bell's or any other local exchange carrier's access service tariff to reference its interstate or the National Exchange Carrier Association's access service tariff with no additional information. All access service tariff rates, rules and regulations must be stated, or, in the event they are referenced to another access service tariff, then the referenced material must be filed and maintained by Cincinnati Bell or any other local exchange carrier as an addendum to its access service tariff.[51]

Furthermore, a 30-day review cycle may not be sufficient to permit interested parties the opportunity to review and comment on issues that access service tariff filings might raise, even though the issues might be known as a result of FCC investigation.

General Telephone made the following recommendation:

> General suggests that the Commission could approve a plan for automatic remirroring. Under such a plan, once a new interstate access tariff has been approved by the FCC, new intrastate tariffs could be required to be filed within 30 days of the interstate effective date, to become effective in another 30 days. Also, should the Commission endorse a plan for accomplishing non-traffic sensitive cost shift as General has suggested, this mechanism for automatic remirroring could be accompanied by automatic small subscriber line

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50 Supplemental Testimony of R. William Stropes, page 10.

51 Order in Phase I of this case dated November 20, 1984, pages 62-63.

charge increases, outside the context of a rate case, to offset decreases in the carrier common line charge.[52]

As in the case of Cincinnati Bell, certain aspects of General Telephone's recommendation have been rejected by the Commission in prior Orders. Specifically, the Commission has rejected intrastate subscriber line charges and the automatic mirroring of interstate access service tariffs.[53] However, General Telephone's recommendation concerning a time frame for access service tariff review may be a feasible schedule.

Under the FCC's current schedule, annual interstate access service tariff filings are made in October and become effective the following January 1. Accordingly, pending its own investigation of interLATA access and intraLATA local and toll cost of service, the Commission will permit the local exchange carriers to make annual intrastate access service tariff filings that mirror their interstate access service tariffs as approved by the FCC, on an optional basis. Any local exchange carrier opting to make an annual intrastate access service tariff filing should notify the Commission, the Attorney General, the interLATA carriers, and WATS resellers by letter no later than January 1 of each year. Actual annual intrastate access service tariff filings should be made no later than the following February 1 with a scheduled effective date of March 1. Also, in order to facilitate comment on any

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52 Supplemental Testimony of Norman L. Farmer, page 5.

53 Order in Phase I of this case dated November 20, 1984, page 28 and page 76, respectively.

controversial issues, copies should be furnished to the Attorney General, the interLATA carriers, and WATS resellers insofar as they are affected. Furthermore, as in this investigation, any annual intrastate access service tariff filing should be accompanied with present and proposed demand priceout information, and a section by section itemized summary of revisions. Interested parties should file comments no later than February 15 following the local exchange carrier's annual intrastate access service tariff filing.

Miscellaneous Matters

In addition to the foregoing, other miscellaneous issues arose in this investigation. These include the matters of the required use of jurisdictionally dedicated feature group connections, the required use of feature group D where equal access is available, and the Commission's jurisdictional WATS Order.[54] None of the parties favored the required use of jurisdictionally dedicated feature group connections, generally on the grounds that such a requirement would be uneconomic. Also, none of the parties favored the required use of feature group D where equal access is available, generally on the grounds that the interLATA carriers should be free to select a grade of access service consistent with their needs.[55] Accordingly, based on the

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54 Order in Phase IV of this case dated June 1, 1987.

55 However, although opposed to the requirement, South Central Bell suggested that it may be reasonable to eliminate feature groups A and B where feature group D is available. Transcript of Evidence, Vol. I, pages 141-142.

position of the parties, the Commission will not require the use of jurisdictionally dedicated feature group connections or require the use of feature group D where equal access is available, at this time. Furthermore, the Commission will not address the matter of jurisdictional WATS in this Order, as the issue is pending rehearing.

In its brief, Continental Telephone argues that the Commission should not require the use of National Exchange Carrier Association access charges on an intrastate basis, but should allow Continental Telephone and other local exchange carriers to mirror their own interstate access service tariffs.[56] As a matter of clarification, the Commission has not required any local exchange carrier to use National Exchange Carrier Association access charges in cases where company-based access service rates are available and does not intend to impose such a requirement at this time.

In its brief, South Central Bell moves the Commission to "ignore irrelevant information elicited at the hearing"[57] and to "institute a generic proceeding to examine unauthorized use of access services and provide appropriate compensation for local exchange companies."[58] The earnings of South Central Bell and other local exchange carriers are beyond the scope of this investigation, as it relates to interLATA and ULAS compensation

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56 Brief of Continental Telephone, page 3.

57 Brief of South Central Bell, page 6.

58 Ibid., page 7.

apart from the issue of earnings. Moreover, as previously indicated, South Central Bell's earnings are the subject of a pending investigation. Therefore, the issue will not be addressed in this Order. Likewise, the latter matter is relevant to other cases and specific Motions in those cases pending before the Commission, and will not be addressed in this Order.[59]

In prefiled and direct testimony at hearing, and in briefs, MCI and Sprint raised various arguments concerning the ULAS tariff and its allegedly unfair impact on interLATA carriers in general and small interLATA carriers in particular.[60] These arguments have been addressed in a prior Order of the Commission and will not be readdressed in this Order.[61]

Finally, AT&T and the other interLATA carriers have raised the issue of toll rate disparity between the interstate and intrastate jurisdictions, through prefiled and direct testimony at hearing, and through briefs.[62]

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59 Case 9874, AT&T Tariff Filing Proposing Megacom/Megacom 800 Service, Case No. 9902, US Sprint's Tariff Filing Proposing to Rename its WATS Products, Change Billing Calculations Methods for WATS, Introduce UltraWATS, Travelcard, Direct 800 and Ultra 800, and Case No. 9928, MCI's Tariff Filing to Establish Prism Plus, Prism I, and Prism II Services.

60 For example, Testimony of Roy L. Morris and Testimony of Michael L. Ball, generally, and Brief of MCI, pages 11-12.

61 Order in Phase II of this case dated April 30, 1987.

62 For example, Testimony of L. G. Sather, pages 10-12, Supplemental Testimony of L. G. Sather, pages 4-7, Transcript of Evidence, Vol. II, pages 57-60, and Brief of MCI, pages 8-9.

The parties should be aware that the origins of toll rate disparity involve complex and sometimes differing regulatory agendas. Interstate toll rate reductions that have occurred over the past few years were made possible as a result of FCC policy decisions that have shifted revenue requirement from the interstate to the intrastate jurisdiction and the burden of interstate cost recovery from interstate carriers to end users. The Commission has often opposed these actions as inconsistent with the public interest and the universal service objective. Moreover, the Commission does not intend to adopt a policy that unreasonably shifts cost recovery from interLATA carriers to end users in order to reduce toll rate disparity. Any such shift and subsequent change in toll rate disparity must be based on interLATA cost of service information relative to the public interest and the universal service objective. In any event, the Commission intends to consider the matter of interLATA cost of service in the near future, which may or may not result in a change in toll rate disparity.

Findings and Orders

The Commission, having considered the evidence of record and being advised, is of the opinion and finds that:

1. The 12 months ended June 30, 1986, should be used to compute interLATA access compensation under proposed access service tariffs.

2. InterLATA revenue requirements should be frozen at 1984 levels, pending studies of interLATA cost of service.

3. ULAS should be calculated as a residual of non-traffic sensitive revenue requirement frozen at 1984 levels, pending a showing of interLATA cost of service.

4. ULAS compensation should be increased to a total annual amount of $7,670,310, as specified in Table 1 attached to this Order, effective 30 days from the date of this Order.

5. Continental Telephone should reduce proposed switched access service rates from the annual pro forma amount of $930,000 to $451,000, or explain why it should not within 15 days from the date of this Order.

6. Cincinnati Bell, General Telephone, and South Central Bell may file applications to increase switched access service rates equal to their respective revenue deficiencies as specified in this Order, provided that interLATA cost of service information is filed with the applications.

7. Cincinnati Bell should concur with South Central Bell's ULAS tariff.

8. Cincinnati Bell and General Telephone should participate in the ULAS settlement process administered by South Central Bell.

9. Cincinnati Bell should file carrier common line charges of $0.0304, applicable to originating minutes of use, and $0.0433, applicable to terminating minutes of use, effective 30 days from the date of this Order.

10. The carrier common line charges proposed by Continental Telephone, Duo County Telephone, General Telephone, and South Central Bell should be approved as filed, effective 30 days from the date of this Order.

11. The access service tariff revisions proposed by Cincinnati Bell, Continental Telephone, Duo County Telephone, General Telephone, and South Central Bell should be approved as filed, except as otherwise noted in this Order and except as revisions are necessary to comply with the Commission's Order concerning jurisdictional WATS, effective 30 days from the date of this Order.

12. Cincinnati Bell, Continental Telephone, Duo County Telephone, General Telephone, and South Central Bell should file revised access service tariffs consistent with the contents of this Order within 30 days from the date of this Order.

13. The Commission should adopt the annual intrastate access service tariff review process specified in this Order.

Accordingly, each of the above findings is HEREBY ORDERED.

Done at Frankfort, Kentucky, this 9th day of December, 1987.

PUBLIC SERVICE COMMISSION

Chairman

Dr. Robert M. Davis did not participate.
Vice Chairman

Commissioner

ATTEST:

Executive Director

TABLE 1

ULAS COMPENSATION

	1984 Carrier Common Line Revenue	Authorized Carrier Common Line Revenue[1]	ULAS Residual
Alltel	$ 159,732	$ 88,132	$ 71,600
Ballard	18,821	15,572	3,249
Brandenburg	214,908	144,820	70,088
Cincinnati	2,083,585	1,215,582	868,003
Continental	959,985	639,178	320,807
Duo County	188,952	125,319	63,633
Foothills	54,276	31,095	23,181
General	5,095,135	4,333,400	761,735
Harold	27,362	14,523	12,839
Highland	36,910	28,186	8,724
Leslie County	37,804	22,538	15,266
Lewisport	26,424	NA	NA
Logan	42,185	25,846	16,339
Mountain	73,421	44,216	29,205
North Central	96,323	84,865	11,458
Peoples	114,130	81,952	32,178
Salem	5,487	3,602	1,885
South Central Bell	14,897,000	9,692,470	5,204,530
South Central Rural	539,913	412,492	127,421
Thacker-Grigsby	31,135	18,313	12,822
West Kentucky	43,169	27,822	15,347
	$24,746,657	$17,049,923	$7,670,310

[1] Based on tariff demand priceout information for the 12 months ended June 30, 1986.